

SANDY SUBURBAN IMPROVEMENT DISTRICT

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS**

DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-7
BALANCE SHEET	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	9
STATEMENT OF CASH FLOWS	10-11
NOTES TO FINANCIAL STATEMENTS	12-21
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE	23



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Sandy Suburban Improvement District
Salt Lake City, Utah

We have audited the accompanying basic financial statements of Sandy Suburban Improvement District as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sandy Suburban Improvement District as of December 31, 2005, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 5, 2006 on our consideration of Sandy Suburban Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pinnock, Robbins, Posey & Richins

April 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sandy Suburban Improvement District's (the District) annual financial report presents our analysis of the District's financial performance during the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the District's financial activities.

Financial Highlights:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$25,583,954 (net assets). Of this amount, \$11,076,098 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,618,722. Approximately 27% of this increase is attributable to sewer lines contributed to the District by developers.
- The Districts bonded debt increased by \$6,764,359 as the result of the issuance of \$7,000,000 general obligation bonds, series 2005.

Overview of Financial Report:

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's analysis of the District's financial condition and performance.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, non-capital financing, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis:

To begin our analysis, a summary of the District's balance sheet is presented in the schedule attached. This section will discuss and analyze significant differences between the years ended December 31, 2004 and 2005.

**Sandy Suburban Improvement District
Condensed Balance Sheet**

	2005	2004
Current and Other Assets	\$ 24,385,099	\$ 16,186,748
Capital Assets	<u>15,897,557</u>	<u>15,583,981</u>
Total Assets	<u>\$ 40,282,656</u>	<u>\$ 31,770,729</u>
Current Liabilities	\$ 848,395	\$ 544,549
Noncurrent Liabilities	<u>13,850,307</u>	<u>7,260,948</u>
Total Liabilities	<u>14,698,702</u>	<u>7,805,497</u>
Net Assets Invested in Capital Assets, Net of Related Debt	8,052,553	8,048,033
Net Assets Restricted	6,455,303	357,963
Net Assets Unrestricted	<u>11,076,098</u>	<u>15,559,236</u>
Total Net Assets	<u>25,583,954</u>	<u>23,965,232</u>
Total Liabilities and Net Assets	<u>\$ 40,282,656</u>	<u>\$ 31,770,729</u>

The balance sheet includes all of the District's assets and liabilities, and equity which is categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$25,583,954 at the end of the year. A portion of the District's net assets, \$8,052,553 (31.5%), reflects its investment in capital assets (e.g., land, buildings, sewer lines and equipment) net of related debt. The District uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net assets, \$11,076,098 (25.2%) represents resources that are subject to external restrictions on how they may be used.

On March 10, 2005 the Board of Sandy Suburban Improvement District passed the Parameters Resolution, authorizing the issuance and sale of \$7,000,000 General Obligation Bonds, Series 2005. These funds are being used to pay for the District's portion of expansion at the South Valley Water Reclamation Facility for Phase 4C construction. Design is taking longer than anticipated. Therefore, most of the bond proceeds are being held by the District at December 31, 2005, resulting in a substantial increase in current and other assets.

Bond funds are being used to conduct a study with regards to wind power. The District is also conducting a feasibility study for a water reuse project with two other governmental agencies. Remaining bond funds will be used for rehabilitation of main lines within the boundaries of the District.

While the balance sheet shows the change in financial position of net assets, the summary of the District's statements of revenues, expenses and changes in net assets, provides information regarding the nature and source of these changes as seen in the following schedule.

**Sandy Suburban Improvement District
Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	2005	2004
Operating Revenues	\$ 1,632,656	\$ 1,583,033
Non-operating Revenues	<u>3,201,607</u>	<u>2,607,034</u>
Total Revenues	<u>4,834,263</u>	<u>4,190,067</u>
Depreciation and Amortization Expense	459,881	412,616
Other Operating Expense	2,285,289	2,270,592
Non-operating Expense	<u>901,817</u>	<u>823,955</u>
Total Expenses	<u>3,646,987</u>	<u>3,507,163</u>

Sandy Suburban Improvement District
Condensed Statement of Revenues, Expenses, and Changes in Net Assets (Continued)

	<u>2005</u>	<u>2004</u>
Income before Capital Contributions	\$ 1,187,276	\$ 682,904
Capital Contributions	<u>431,446</u>	<u>478,799</u>
Change in Net Assets	1,618,722	1,161,703
Net Assets - Beginning of Year	<u>23,965,232</u>	<u>22,803,529</u>
Net Assets - Ending of Year	<u>\$ 25,583,954</u>	<u>\$ 23,965,232</u>

Net assets increased in 2005 by \$1,618,722, compared to \$1,161,703 in 2004. Key elements of this increase are as follows:

- Interest income increased by approximately \$298,000 (192%) due to bond proceeds received for South Valley expansion and line rehabilitations.
- Impact fees increased by approximately \$133,000 (67%) due to the increase in the amount of building taking place within the District.
- Property taxes increased by approximately \$148,000 (7%) due to higher property values.

Capital Asset and Debt Administration:

Capital Assets. The District's investment in capital assets as of December 31, 2005, amounts to \$15,897,557 (net of accumulated depreciation). This investment in capital assets includes land, buildings, sewer systems, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 2.0% overall.

Major capital asset events during the current fiscal year included the following:

- Developer contributed sewer lines - \$431,446
- Purchase of jet washing truck - \$136,496

Capital Assets
Net of Depreciation

	<u>2005</u>	<u>2004</u>
Land	\$ 11,750	\$ 11,750
Buildings	3,828,139	3,932,835
Sewer lines	11,622,092	11,322,219
Trucks and mobile equipment	245,845	169,655
Line and shop equipment	15,042	18,387
Furniture and fixtures	85,004	93,899
Computers and software	56,841	25,236
Construction-in-progress	<u>32,844</u>	<u>—</u>
TOTAL	<u>\$ 15,897,557</u>	<u>\$ 15,573,981</u>

Additional information on the District's capital assets can be found in Note 3.

Long-Term Debt. At the end of the current fiscal year, the District had total debt of \$14,300,307. The debt represents bonds backed by the full faith and credit of the District. The District's debt increased by \$6,764,359 during the current fiscal year, as a result of the issuance of \$7,000,000 general obligation bonds, series 2005, during the current year.

Long-Term Debt

	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 14,210,000	\$ 7,485,000
Unamortized bond premiums	<u>90,307</u>	<u>50,948</u>
TOTAL	<u>\$ 14,300,307</u>	<u>\$ 7,535,948</u>

Additional information on the District's long-term debt can be found in Note 7.

Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the General Manager of the Sandy Suburban Improvement District, 8855 South 700 West, Sandy, UT 84070.

SANDY SUBURBAN IMPROVEMENT DISTRICT

BALANCE SHEET

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 9,932,995
Accounts receivable	43,616
Property tax receivable	52,911
Unremitted tax liens	80,252
Note receivable - current portion	<u>18,106</u>

TOTAL CURRENT ASSETS 10,127,880

NONCURRENT ASSETS:

Restricted cash and cash equivalents:	
General obligation bond construction fund	6,455,303
Insurance reserve fund	104,736
Building bond fund	180,959
Note receivable, net of current portion	412,417
Capital assets (net of accumulated depreciation)	15,897,557
Investment in South Valley Water Reclamation Facility	6,908,441
Deferred bond issuance costs, net	<u>195,363</u>

TOTAL NONCURRENT ASSETS 30,154,776

TOTAL ASSETS \$ 40,282,656

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 291,003
Accrued interest payable	107,392
General obligation bonds - current	<u>450,000</u>

TOTAL CURRENT LIABILITIES 848,395

NONCURRENT LIABILITIES:

General obligation bonds payable (net of unamortized premiums)	<u>13,850,307</u>
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TOTAL NONCURRENT LIABILITIES 13,850,307

TOTAL LIABILITIES 14,698,702

NET ASSETS:

Invested in capital assets, net of related debt	8,052,553
Restricted for capital improvements	6,455,303
Unrestricted	<u>11,076,098</u>

TOTAL NET ASSETS 25,583,954

TOTAL LIABILITIES AND NET ASSETS \$ 40,282,656

SANDY SUBURBAN IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES:

Sewer service charges \$ 1,632,656

TOTAL OPERATING REVENUES 1,632,656

OPERATING EXPENSES:

South Valley Water Reclamation Facility operating expenses 847,147
Maintenance and inspection of lines 100,948
Salaries and wages 709,048
Payroll taxes and benefits 305,439
Professional fees 70,162
Office supplies and expenses 117,015
Insurance 66,637
Depreciation and amortization 459,881
Other 68,893

TOTAL OPERATING EXPENSES 2,745,170

OPERATING (LOSS) (1,112,514)

NON-OPERATING REVENUES (EXPENSES):

Property taxes 2,401,562
Investment earnings 452,593
Impact fees 330,730
Interest expense (535,480)
Gain on disposal of assets 16,722
Equity in net loss of South Valley Water
Reclamation Facility (366,337)

TOTAL NON-OPERATING REVENUES (EXPENSES) 2,299,790

INCOME BEFORE CAPITAL CONTRIBUTIONS 1,187,276

DEVELOPER CONTRIBUTED SEWER LINES 431,446

CHANGE IN NET ASSETS 1,618,722

NET ASSETS - BEGINNING OF YEAR 23,965,232

NET ASSETS - END OF YEAR \$ 25,583,954

SANDY SUBURBAN IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 1,606,298
Payments to suppliers	(1,176,439)
Payments to employees	<u>(1,014,487)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(584,628)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Property taxes	<u>2,399,553</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>2,399,553</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Impact fees received	330,730
Proceeds from capital debt	7,046,211
Payment of bond issuance costs	(108,638)
Proceeds from sale of capital assets	20,920
Acquisition and construction of capital assets	(337,273)
Principal payments - note receivable	17,410
Principal paid on bonds	(275,000)
Interest paid on bonds	<u>(495,010)</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>6,199,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital acquisitions in South Valley Water Reclamation Facility	(662,707)
Refund of member deposits to South Valley Water Reclamation Facility	336,850
Interest received	<u>452,593</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>126,736</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,141,011
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,532,982</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$16,673,993</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	\$ 9,932,995
Cash and cash equivalents - restricted	<u>6,740,998</u>
	<u>\$16,673,993</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2005

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
(USED IN) OPERATING ACTIVITIES:**

Operating (loss)	\$(1,112,514)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation and amortization	459,881
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	13,675
Unremitted tax liens	(27,194)
Increase (decrease) in:	
Accounts payable	94,363
Deposits	<u>(12,839)</u>

NET CASH (USED IN) OPERATING ACTIVITIES **\$ (584,628)**

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The District received additions to the collection system in the amount of \$431,446 in 2005, which represent the fair value of sewer trunk lines deeded to the District. These additions were accounted for as capital contributions in the statement of revenues, expenses and changes in net assets.

The District recognized its proportionate share of equity in the net loss of South Valley Water Reclamation Facility in the amount of \$366,337 for the year ended December 31, 2005.

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Sandy Suburban Improvement District (the District) is a special service district governed by an elected three member board. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The District is not reported as a component unit of any other entity, and the District has no blended or discretely presented component units.

B. Measurement Focus and Basis of Accounting

The District is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

C. Statement of Cash Flows

The District recognized deposits and investments and restricted investments as cash and cash equivalents. These amounts include cash in bank and deposits and investments with maturities of three months or less.

D. Restricted Cash and Cash Equivalents

Certain resources set aside for capital improvements are classified as restricted on the balance sheet because their use is limited by applicable bond covenants. Other cash accounts set aside for insurance reserves and a building bond are also restricted.

E. Arbitrage Rebates

Under the Internal Revenue Code, arbitrage earnings on certain bond issues may be subject to rebate. As of December 31, 2005, the District has not accrued any estimated arbitrage rebates payable.

F. Allowance for Doubtful Accounts

The District does not record bad debt expense or an allowance for doubtful accounts on sewer fees. Unpaid fees are certified to the county and attached as liens on the related real estate, see Note 5.

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets are stated at cost. Normal maintenance and repairs that do not materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. The net book value of property sold or otherwise disposed of is removed from the property, and accumulated depreciation accounts and the resulting gain or loss is included in income.

Capital assets donated to the District are recorded at the estimated fair value at the date of donation.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Sewer lines	60 years
Trucks and mobile equipment	5-10 years
Line and shop equipment	5-10 years
Furniture and fixtures	5-10 years
Computers and software	5 years

H. Joint Venture

The District accounts for its interest in a joint venture using the equity method of accounting.

I. Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Vacation does not accumulate from year to year. At the end of the year, 25% of unused sick leave is paid to the employee and 75% is accumulated for future use. Upon retirement, 25% of unused sick leave that has accumulated will be paid to the employee. Employees who are terminated before retirement forfeit any sick leave benefits. The District does not accrue sick leave benefits as allowed by FASB 43.

J. Property Tax Revenues

Property tax revenues are used to meet the operating and maintenance expenses of the District. Property taxes are levied on January 1st based on the assessed values of property as listed on the previous May 31st. Assessed values are an approximation of market value. The county assessor must make a re-evaluation of all real property every five years. Property taxes are delinquent after November 30. The District's tax rate for 2005 is .001101, which is comprised of .000692 for operations and maintenance and .000409 for debt service. The statutory maximum set by the state for operations and maintenance is .000800. There is no statutory maximum for the reduction of general obligation bonds.

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Budgetary Accounting

For management and control purposes, the District adopts and maintains an annual cash budget. Non-cash items such as depreciation and the loss from the District's joint venture are not included. Items budgeted, but not expended, are not carried over to succeeding years. Budgeted items must be re-appropriated each year.

L. Use of Estimates in the Preparation of Financial Statements

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Risk Management

The District has exposure to liabilities due to the nature of its operations. The District purchases insurance from an independent agent to provide worker's compensation coverage and general liability and property insurance. There were no significant reductions in insurance coverage from the prior year.

2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

A. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 700
Cash on deposit	<u>429,324</u>	<u>480,456</u>
TOTAL	<u>\$ 429,324</u>	<u>\$ 481,156</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, \$129,324 of the District's bank balances of \$429,324 were uninsured and uncollateralized.

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$16,192,837	\$16,192,837	\$ -	\$ -	\$ -

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2005, the District's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 11,750	\$ —	\$ —	\$ 11,750
Construction-in-progress	—	32,844	—	32,844
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>11,750</u>	<u>32,844</u>	<u>—</u>	<u>44,594</u>
Capital assets, being depreciated:				
Buildings	4,081,154	—	—	4,081,154
Sewer lines	15,430,688	552,578	—	15,983,266
Trucks and mobile equipment	494,478	138,146	(46,631)	585,993
Line and shop equipment	85,620	—	(4,475)	81,145
Furniture and fixtures	149,760	4,118	(17,026)	136,852
Computer and software	76,257	41,033	(7,670)	109,620
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>20,317,957</u>	<u>735,875</u>	<u>(75,802)</u>	<u>20,978,030</u>
Less accumulated depreciation for:				
Buildings	(148,319)	(104,696)	—	(253,015)
Sewer lines	(4,098,469)	(262,705)	—	(4,361,174)
Trucks and mobile equipment	(324,823)	(57,758)	42,433	(340,148)
Line and shop equipment	(67,233)	(3,345)	4,475	(66,103)
Furniture and fixtures	(55,861)	(13,013)	17,026	(51,848)
Computers and software	(51,021)	(9,428)	7,670	(52,779)
TOTAL ACCUMULATED DEPRECIATION	<u>(4,745,726)</u>	<u>(450,945)</u>	<u>71,604</u>	<u>(5,125,067)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>15,572,231</u>	<u>284,930</u>	<u>(4,198)</u>	<u>15,852,963</u>
CAPITAL ASSETS, NET	<u>\$15,583,981</u>	<u>\$ 317,774</u>	<u>\$ (4,198)</u>	<u>\$15,897,557</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY

During 1978, pursuant to the Interlocal Cooperation Act of the State of Utah, the District entered into a joint venture with two other special districts and two other cities. The joint venture was organized to construct and operate a regional sewage treatment facility, for the benefit of the five members. The five members and their related ownership interests are listed below:

South Valley Sewer District	34.72%
West Jordan City Corporation	28.22%
Sandy Suburban Improvement District	20.17%
Midvalley Improvement District	10.11%
Midvale City Corporation	6.78%

South Valley Water Reclamation Facility is in the process of expanding its operations from 38 million gallons per day to 50 million gallons per day. The plant ownership interest will be adjusted in accordance with the proportion of the expansion paid by the participating members. The estimated new ownership percentages are as follows:

South Valley Sewer District	32.40%
West Jordan City Corporation	36.44%
Sandy Suburban Improvement District	17.32%
Midvalley Improvement District	7.68%
Midvale City Corporation	6.16%

A five member board administers the joint venture. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges.

The joint venture is responsible for adopting a budget and financing its operations, subject to the approval by each of the five members. Each member is billed its share of operating cost based on the members' usage and ownership percentage. The District incurred treatment fees and operating costs of \$847,147 for 2005.

The District accounts for its investment in South Valley Water Reclamation Facility using the equity method of accounting. The following schedule is a summary of the financial information from South Valley Water Reclamation Facility as of and for the year ended December 31, 2005:

Current and other assets	\$23,129,680
Capital assets	<u>47,696,381</u>
Total assets	<u>\$70,826,061</u>
Current liabilities	\$ 1,587,795
Non-current liabilities	20,098,900
Net assets	<u>49,139,366</u>
Total liabilities and net assets	<u>\$70,826,061</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (CONTINUED)

Operating revenues	\$ 7,477,888
Operating expenses	(7,221,583)
Depreciation expense	<u>(3,018,257)</u>
Net loss from operations	<u>(2,761,952)</u>
Non-operating revenues (expenses)	<u>44,421</u>
Net loss before contributions	(2,717,531)
Members' contributions	3,602,698
Refund of members' deposit	<u>(2,000,000)</u>
Change in net assets	(1,114,833)
Members' net assets at beginning of year	<u>50,254,199</u>
Total members' net assets at end of year	<u>\$49,139,366</u>

Audited financial statements are available at South Valley Water Reclamation Facility, 7495 South 1300 West, West Jordan, Utah 84084.

The following schedule shows the District's investment activity in South Valley Water Reclamation Facility for the year ended December 31, 2005:

Investment, beginning of year	\$ 6,948,921
District's allocated net loss	(366,337)
Additional capital contributions	662,707
Refund of member deposits	<u>(336,850)</u>
Investment, end of year	<u>\$ 6,908,441</u>

5. UNREMITTED PROPERTY LIENS

Unremitted property liens as of December 31, 2005, in the amount of \$80,252, represent the total amount of past due accounts receivable which have been referred to the Salt Lake County Treasurer's office for attachment to the related real estate property as liens. No reserve for uncollectible accounts has been established since the property cannot be sold or transferred without first clearing those liens from the records.

6. NOTES RECEIVABLE

Notes receivable consist of amounts due from an entity for the purchase of property from the District in 2003. The note receivable bears interest at 4%, is payable in annual installments, and has a term of ten years, beginning on November 30, 2003, with a balloon payment of \$300,000 due on November 30, 2013.

	<u>2005</u>
Total notes receivable	\$ 430,523
Less current portion	<u>(18,106)</u>
Notes receivable, net of current portion	<u>\$ 412,417</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. NOTES RECEIVABLE (CONTINUED)

Presented below is a summary of notes receivable payment requirements to maturity by years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 18,106	\$ 17,221	\$ 35,327
2007	18,830	16,497	35,327
2008	19,583	15,744	35,327
2009	20,367	14,960	35,327
2010	21,182	14,145	35,327
2011-2015	<u>332,455</u>	<u>38,199</u>	<u>370,654</u>
 TOTAL	 <u>\$ 430,523</u>	 <u>\$ 116,766</u>	 <u>\$ 547,289</u>

7. LONG-TERM DEBT

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$8,000,000. During the year, general obligation bonds totaling \$7,000,000 were issued to fund the district's share of the costs of expansion and upgrades to South Valley Water Reclamation Facility and replacement of aging sewer lines.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Sewer collection systems/administration building	4.00 – 5.15%	\$ 7,210,000
Sewer treatment facilities/collection systems	3.50 – 4.25%	<u>7,000,000</u>
		<u>\$14,210,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 450,000	\$ 635,761	\$ 1,085,761
2007	470,000	617,843	1,087,843
2008	490,000	598,774	1,088,774
2009	510,000	578,486	1,088,486
2010	540,000	556,936	1,096,936
2011-2015	3,040,000	2,393,331	5,433,331
2016-2020	3,840,000	1,594,182	5,434,182
2021-2025	<u>4,870,000</u>	<u>575,246</u>	<u>5,445,246</u>
 TOTAL	 <u>\$14,210,000</u>	 <u>\$ 7,550,559</u>	 <u>\$ 21,760,559</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
General obligations bonds	\$ 7,485,000	\$ 7,000,000	\$ (275,000)	\$14,210,000	\$ 450,000
Add:					
Bond premiums	50,948	46,211	(6,852)	90,307	—
TOTAL BONDS PAYABLE	\$ 7,535,948	\$ 7,046,211	\$ (281,852)	\$14,300,307	\$ 450,000

8. PENSION PLAN

Plan Description

The District contributes to the Local Governmental Contributory Retirement System (Contributory System) and Local Governmental Noncontributory Retirement System (Noncontributory System), all of which are cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah State Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling (800) 365-8772.

Funding Policy

All District employees are eligible to participate. In the Local Governmental Noncontributory Retirement System, the District was required to contribute 11.09% of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District made the following contributions, which were equal to the required contributions for each year:

	<u>Year Ended December 31,</u>	<u>Employee Paid Contributions</u>	<u>Employer Paid For Employees Contributions</u>	<u>Employer Contributions</u>	<u>Salary Subject to Retirement Contributions</u>
Local Governmental - Noncontributory	2005	N/A	N/A	\$ 77,042	\$ 694,698
	2004	N/A	N/A	66,502	641,188
	2003	N/A	N/A	54,354	593,561
401(k) Contributions	2005	\$ 15,026	\$ —		
	2004	71,873	—		
	2003	17,052	—		

SANDY SUBURBAN IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. IMPACT FEES

The District collects connection fees that are defined as impact fees. The District must expend these impact fees on capital expenditures relating to the infrastructure of the District, South Valley Water Reclamation Facility construction, or building improvements. As allowed by law, the District's policy is to reimburse prior infrastructure costs before current expenditures. Therefore, the District had no impact fee reserves at December 31, 2005. Revenues from impact fees were \$330,730 for the year ended December 31, 2005.



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Trustees
Sandy Suburban Improvement District

We have audited the financial statements of Sandy Suburban Improvement District, as of and for the year ended December 31, 2005, and have issued our report thereon dated April 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sandy Suburban Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sandy Suburban Improvement District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the Sandy Suburban Improvement District's management, Board of Trustees, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

April 5, 2006



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Trustees
Sandy Suburban Improvement District

We have audited the financial statements of Sandy Suburban Improvement District, for the year ended December 31, 2005 and have issued our report thereon dated April 5, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Management
Purchasing Requirements
Budgetary Compliance
Public Debt

Other Compliance Requirements
Special Districts
Truth in taxation and property tax limitation
Impact fees

The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of Sandy Suburban Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Sandy Suburban Improvement District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended for the use of Sandy Suburban Improvement District's Management, Board of Trustees, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

April 5, 2006



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April 5, 2006

To the Board of Trustees
Sandy Suburban Improvement District

Dear Members:

We have completed our audit of Sandy Suburban Improvement District for the year ended December 31, 2005. Sandy Suburban Improvement District is ultimately responsible for the financial condition of the District, and for the District's compliance with finance related state and federal law. The Uniform Fiscal Procedures Act outlines responsibilities of the governing body.

The purpose of the financial statements is to report in summary form, the financial condition of the District, and the results of its operations and changes in financial condition, and to provide information to the governing body to help them satisfy their legal and political responsibilities for determining and demonstrating compliance with the various finance related state and federal law.

During our audit, we observed that the District has made significant efforts to establish good accounting procedures and controls. Accounting controls are established to safeguard assets and to provide reliable financial and accounting information. We commend the District and its employees for their efforts in this area. During our audit, we noted no matters involving the internal control structure that should be presented to the Board. However, we noted certain other operational matters that are presented for your consideration.

Arbitrage Rebates

During the year, the District issued \$7,000,000 general obligation bonds. As of December 31, 2005, a significant portion of the bond proceeds are still being held by the District. As a result, the District's arbitrage earnings may be subject to rebate. Arbitrage is the excess profit earned from the investment of tax-exempt bond proceeds in taxable obligations at a yield that is materially higher than the yield on the bonds. Arbitrage requirements arising from the Internal Revenue Code and U.S. Treasury regulations generally require governments to rebate the excess investment earnings to the federal government. Excess earnings are required to be rebated every five years or upon maturity of the bonds whichever is earlier. Governments generally should calculate the arbitrage liability annually to determine whether it is material and thus should be reported in the financial statements. No such calculation was made for the year ended December 31, 2005.

Recommendation

We recommend that the District determine whether an arbitrage rebate liability exists, and calculate and record the arbitrage liability in the financial statements on an annual basis.

Management's Response

The District is aware of the potential arbitrage rebate liability. With the delayed design and introduction of construction items being moved from one phase of construction to the next at the South Valley Water Reclamation Facility, the District will need to divert more funds to rehabilitation of main sewer lines, the feasibility of a wind turbine, and reuse of wastewater.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Accounting Software

During our audit, we noted that the accounting software used by the District has certain limitations. Specifically, there were certain errors in the calculation of depreciation expense on capital assets in the software. These errors were identified and evaluated as part of the audit process; however, there is a potential for continued errors in accounting for capital assets.

Recommendation

We recommend that the District consider purchasing and installing a new governmental accounting software package.

Status

During 2005, the District purchased new accounting software from Caselle, Inc. The District began utilizing the software subsequent to December 31, 2005.

Capitalization Limit

During our audit, we noted that immaterial items are being capitalized and depreciated. Capitalizing such low cost items results in a large volume of assets that need to be accounted for and depreciated. Setting a higher capitalization limit will result in the District capitalizing far less individual assets while capturing the majority of the total cost of capital assets.

Recommendation

We recommend that the District consider increasing its capitalization limit.

Status

The District has set its capitalization limit at \$500. During 2005, the District removed all fully-depreciated assets below the \$500 capitalization limit from the financial statements.

We sincerely appreciate the cooperation we received from the management and employees of the District during the course of the audit. It has been a pleasure working with them. We appreciate the opportunity to serve as your auditors.

Pinnock, Robbins, Posey & Richins

Pinnock, Robbins, Posey & Richins, PC